

Uniform Commercial Code

Article 8 — Investment Securities

Owen F. Walker*

Article 8 deals with "investment securities" — bonds, debentures, stock certificates and the like. It covers bearer bonds, now governed by the Uniform Negotiable Instruments Act,¹ not a suitable haven for this type of security, and stock certificates, now governed by the Uniform Stock Transfer Act.² In addition it deals with registered bonds and debentures and additional types of investment paper not now covered by any Uniform Act. The Article is not intended as a substitute either for a Blue Sky Law or a corporation code. It is a negotiable instrument law dealing with investment securities. The Article should be an extremely valuable statute because it will confer upon many securities, which do not now possess them, the attributes of negotiability and provide relatively simple rules dealing with the relationships between the holder of an investment security and the issuer as to defenses and between successive holders or the holder and the issuer as to claims of ownership. It also adopts a modern approach to the problems incident to the transfer of investment securities.

I. SCOPE OF ARTICLE 8.

A "security" is defined in Section 8-102 as "an instrument issued in bearer or registered form of a type commonly dealt in upon securities exchanges or markets or commonly recognized in any area in which it is issued or dealt in as a medium for investment if

(I) it is either one of a class or series or by its terms is divisible into a class or series of instruments; and

(II) it evidences a share, participation or other interest in property or in an enterprise or evidences an obligation of the issuer."

The definition is functional and it is believed will cover any instrument which securities markets are likely to regard as suitable for trading. For example, it will include an interim receipt entitling the holder to delivery of a definitive security and transferable warrants evidencing rights to subscribe for shares in a corporation.³

* Of the firm of Thompson, Hine, and Flory, Cleveland, Ohio.

¹ Ohio has adopted the Uniform Negotiable Instruments Act — OHIO GEN. CODE §§ 8106 — 8300.

² Ohio has also adopted the Uniform Stock Transfer Act OHIO GEN. CODE §§ 8673-1 — 8673-22. The Act is now in force in all 48 states.

³ In *Hopple v. Cleveland Discount Co.*, 25 Ohio App. 138, 137 N.E. 414 (1927), an Ohio court succeeded in giving the attributes of negotiability to an interim receipt in order to protect an innocent purchaser for value by hold-

Within the definition will be included the vast field of debt securities in registered form which are not now covered by the Uniform Negotiable Instruments Act because not "payable to order or to bearer."⁴ The definition will permit new types of securities to qualify for and to acquire negotiability. On the other hand, the definition will not cover all instruments which are considered securities under the Federal Securities Act of 1933, as amended,⁵ or the Ohio Securities Act.⁶ Of course, "securities markets" in the definition includes the "over the counter" market. If an instrument is a security as defined in Section 8-102, it is governed by Article 8 and not by Article 3 — Commercial Paper, even though it also meets the requirements of Article 3. Section 8-102(1) (b).

A security is in "registered form" when its terms specify a person entitled to the security and that its transfer may be registered upon books maintained for that purpose by or on behalf of the issuer. Section 8-102(1) (c). A security is in "bearer form" when it runs to bearer according to its terms and not by reason of any indorsement. Section 8-102(1) (d).

II. ISSUER'S DEFENSES.

The object of Article 8 is to cut off the defenses of an issuer as against a purchaser for value and without notice so far as is reasonable and practicable. With respect to obligations on or defenses to a security the "issuer" is broadly defined. It includes a person who places or authorizes the placing of his name on a security to evidence that it represents a share, participation or other interest in his property or in an enterprise, or to evidence his duty to perform the principal obligation represented by the security, or otherwise undertakes to perform the principal obligation represented by the security, or becomes responsible for or in place of an issuer. Section 8-201. Thus a guarantor is an issuer with respect to obligations on or defenses to a security.

The first problem with respect to issuer's defenses dealt with is that of the incorporation in a security of another instrument,

ing that the contracting parties were adopting the principles of the law merchant. An opposite result was reached in *President and Directors of Manhattan Co. v. Morgan*, 242 N.Y. 38, 150 N.E. 594 (1926). Neither an interim receipt nor a transferrable warrant meets the requirement of Section 1 of the Uniform Negotiable Instruments Act (OHIO GEN. CODE § 8106) that an instrument to be negotiable "must contain an unconditional promise or order to pay a sum certain in money."

⁴ Section 1 (4) of the Uniform Negotiable Instruments Act—OHIO GEN. CODE § 8106.

⁵ 48 Stat. 74 (1933), 15 U.S.C. 77a—77aa. For the definition of a "security" see Section 2 (1).

⁶ OHIO GEN. CODE § 8624-1—49. For the definition of a "security" see OHIO GEN. CODE § 8624-2 (2).

such as an indenture, agreement, constitution or statute. Section 8-202(1) states that as against a purchaser for value and without notice, terms in addition to those stated on a security may be made a part thereof by reference to another instrument, indenture, or document, or to a constitution, or statute *only* to the extent that such additional terms do not materially vary the stated terms. However, such a reference does not charge a purchaser for value with notice of what is there contained. Section 8-202(5). The effect of these provisions will be to preserve negotiability for a security against the contention that reference to an indenture or agreement under which it is issued renders the promise conditional,⁷ while carrying out the general policy of the Uniform Commercial Code against constructive notice in commercial transactions.⁸

The Article provides that a security of a private issuer (as contrasted with a governmental issuer) is valid in the hands of a purchaser for value and without notice of a defect even if the defect is one "going to its validity." Section 8-202(2) (a). However, if the defect involves a violation of constitutional provisions the purchaser for value and without notice takes subject to the issuer's defenses, but the security is valid in the hands of a subsequent purchaser for value and without notice of the defect. Section 8-202(2) (a).⁹ This distinction will be unimportant in Ohio for there are no constitutional provisions requiring that substantial value be given for securities of private issuers. Such constitutional provisions do, however, exist in some States.

An "overissue"¹⁰ of securities, although generally regarded as a defect going to validity, is an exception to the rule of validity set forth in Section 8-202(2). An issuer is not required to recognize as valid a security which constitutes an overissue. Section 8-104. However, the purchaser of a security which constitutes an overissue is given the right to compel the issuer to purchase and deliver a similar security, if such similar security is available on the market and, if not so available, to recover from the issuer the price he paid. Section 8-104(1).¹¹

⁷ And thus in violation of Section 1(2) of the Uniform Negotiable Instruments Act (OHIO GEN. CODE § 8106).

⁸ See the definitions of "notice", "notifies" and "receives" notice in Section 1-201 of the Uniform Commercial Code.

⁹ A "purchaser" includes a person taking from the issuer on an original issue (Section 1-201), whereas a "subsequent purchaser" does not. Section 8-102.

¹⁰ "Overissue" is defined as the issue of securities in excess of the amount which the issuer has corporate power to issue. Section 8-104(2).

¹¹ The right to recover damages from an issuer which has permitted an overissue is established, but the measure of damages recoverable has varied, some courts basing them upon the value of the stock at the time registration is refused, others upon the value at the time of trial, and others upon the

Governmental issuers are placed in a position different from that of a private issuer. A security issued by a governmental issuer with a defect going to its validity is valid in the hands of a purchaser for value without notice of the defect only if there has been substantial compliance with the legal requirements governing the issue, or the issuer has received substantial consideration and the stated purpose of the issue is one for which the issuer has power to borrow money. Section 8-202 (2). If the defect involves a violation of constitutional provisions, the original purchaser cannot be protected, but if either of the conditions set forth in the preceding sentence is satisfied a subsequent purchaser for value will be given protection. As a practical matter the problem of invalidity of securities of a governmental issuer is not likely to arise in view of the fact that, at the present time, underwriters purchasing such securities invariably require legal opinions as to the validity of the issue as a condition of their purchase.

As has always been the case, forged or counterfeit securities are not valid even in the hands of a purchaser for value and without notice. Section 8-202 (3). However, the Article gives statutory recognition to the principle that if an unauthorized signature is placed on a security before or in the course of its issue, the security will be validated in favor of a purchaser for value and without notice of the lack of authority where such signature is made either by a person entrusted by the issuer with the execution of the security or similar securities, or their immediate preparation for execution, or by an employee entrusted with their responsible handling. Section 8-205. The adoption of this principle represents an extension of the present case law dealing with the liability of an issuer but not to a point where the issuer is held liable for the honesty of an employee who was not entrusted by the issuer with the execution, preparation, or responsible handling of similar securities and whose forgery the issuer had no reason to anticipate.¹²

The rule of the Uniform Negotiable Instruments Act that a holder in due course must take the instrument "before it was overdue"¹³ is abolished in the case of investment securities. Its appli-

highest value between the time of refusal and the time of trial. Article 8-104 rejects all previous measures and adopts the price of the security as the measure of damages. See Comment to Section 8-104.

¹² The Comment to Section 8-205 states that Section 8-205 expressly rejects the technical distinction made by courts reluctant to recognize forged signatures between cases where the forger signs a signature he is authorized to sign under proper circumstances and those in which he signs a signature he is never authorized to sign. The purchaser is rarely in a position to determine the exact authority of the signer but the issuer can protect itself against forgery by careful selection of employees and bonding.

¹³ Section 52 (2) of the Uniform Negotiable Instruments Act (OHIO GEN. CODE § 8157).

cation to such securities was never appropriate. Section 8-203 charges a purchaser with notice of a defect in issue of a security if he takes the security more than one year after the date set for its payment or the delivery of other securities in exchange for the security and the necessary funds or other securities are available, or in any other case if he takes the security more than two years after the date set for surrender or other performance which does not require the payment of money. The theory of this provision is that if a security is in circulation long after it has been called for payment or exchange, this fact should give rise to questions as to its validity in a purchaser's mind. Recognition is also given to the fact that defaulted securities are frequently traded in and that a purchaser should not be placed upon notice of a defect in issue by the mere fact of default until the expiration of a reasonable period of time after the default.

A useful provision is included in Article 8 fixing the measure of responsibility of a trustee under an indenture which authenticates securities issued under the indenture, or a registrar or transfer agent, which places its signature on a security. Such a signer warrants that the security is not forged or counterfeit and is in proper form (regular on its face with regard to all formal matters), that it has capacity to act as such trustee, registrar, or transfer agent, and is acting within the scope of the authorization received from the issuer and that the security is within the amount specified in such authorization (*i.e.* not an overissue).¹⁴ Section 8-208. However, such a signer does not assume any responsibility for the validity of the security in other respects unless it expressly undertakes to do so. Heretofore there has been no statutory provision as to the responsibilities of an indenture trustee, transfer agent, or registrar. This provision reflects the results achieved by the cases.

III. RIGHTS OF PURCHASER.

A bona fide purchaser acquires a perfect title to the security. Section 8-301. A "bona fide purchaser" is defined as "a purchaser for value and without notice of any claims of ownership who takes delivery of a security in bearer form or of one in registered form issued to him or indorsed to him or in blank." He is the counterpart of the "holder in due course" under the Uniform Negotiable Instruments Act.¹⁵ Article 8 states certain cases in which a purchaser is charged with notice of claims of ownership. Thus, if the

¹⁴ The Comment to Section 8-208 makes it clear that in estopping an indenture trustee, registrar, or transfer agent from asserting that a security is an overissue, Section 8-208 does not validate such security (see Section 8-104), but merely gives an action in damages.

¹⁵ A "holder in due course" is defined in Section 52 of the Uniform Negotiable Instruments Act (OHIO GEN. CODE § 8157).

security is indorsed "for collection" or "for surrender" or for some other purpose not involving transfer he is so charged. Section 8-304(1) (a). This is merely a restatement of Section 37 of the Uniform Negotiable Instruments Act.¹⁶ An entirely new provision provides that a purchaser is charged with notice of claims of ownership if he purchases the security within six months after he has received notification that it has been lost or stolen. In view of the volume of securities trading at the present time this provision imposes a reasonable requirement—brokerage houses will check deliveries made to them against a list of lost or stolen securities for six months and thereafter they may ignore it.

The most important problem dealt with in the field of notice of claims of ownership is the case of the purchase of a security registered in a fiduciary's name or where the purchaser has notice that the registered owner holds the security for third person. Section 8-304(2) provides that in either of such cases the purchaser has no duty to inquire into the rightfulness of the transfer, and that such registration or notice does not constitute notice to the purchaser of claims of ownership, except in three cases: firstly, if the purchase price of the security is placed by the purchaser in the individual account of the fiduciary, secondly, if the purchase price is made payable in cash or to the fiduciary individually, or thirdly, if the purchaser has reason to know that the purchase price is being used or that the transaction is for the individual benefit of the fiduciary.

Similarly as in the case of issuer's defenses, the rule of the Uniform Negotiable Instruments Act that a holder in due course must purchase the instrument "before it was overdue"¹⁷ is abolished in the case of transfers. However, the purchase of an overdue instrument may in some cases constitute notice of claims of ownership. Section 8-305 charges a purchaser with notice of claims of ownership if he purchases a security more than six months after the date set for the payment of money against surrender of the security and in any other case if he takes the security more than one year after the date set for presentation or surrender for redemption or exchange. The periods of time are shorter than those used to constitute notice of defects in issue, (Section 8-203). Presumably a purchaser who takes a security after it has been called for redemption or exchange has more reason to suspect that there are claims of ownership to the security than defects in its original issue. Under this section a default will never constitute notice of a possible claim of ownership.

¹⁶ OHIO GEN. CODE § 8142.

¹⁷ Section 52 (2) of the Uniform Negotiable Instruments Act (OHIO GEN. CODE § 8157).

IV. TRANSFER OF SECURITIES.

For securities in registered form the simplified method of indorsement set forth in the Uniform Stock Transfer Act is adopted, namely, execution of an assignment or transfer by the registered owner or prior indorsee on the security or on a separate document (usually called a stock power) or when the signature of such person is written without more on the back of the security. Section 8-308(1). The very sensible rule is stated that the indorser assumes no obligation that the instrument will be honored by the issuer. Section 8-308(3). This was always the case with stock certificates under the Uniform Stock Transfer Act, but not for debt securities subject to the Uniform Negotiable Instruments Act unless the indorsement was made without recourse. There may be an indorsement of only part of the security — 50 out of a 100 share certificate, but the transferee of a security so indorsed can not become a bona fide purchaser. Section 8-308(4). This produces an undesirable result but one which is difficult to avoid.

The Uniform Stock Transfer Act contains no provision with respect to the effectiveness of a forged indorsement. The Uniform Negotiable Instruments Act gave no effect to a forged indorsement unless the holder was precluded from setting up the forgery.¹⁸ Article 8 adopts the rule of the Uniform Negotiable Instruments Act but extends it by providing that the owner of a security whose indorsement thereon is unauthorized cannot assert the ineffectiveness of the indorsement against a purchaser for value without notice of claims of ownership who has in good faith received a new security on registration of transfer of the security so indorsed. Section 8-311. Most purchases of securities are now made through brokers and a purchaser receives and sees only a new certificate or instrument registered in his name. Such a purchaser, therefore, cannot possibly be held to have notice of or to have relied upon a forged or unauthorized indorsement on the original security transferred and consequently should be protected. The original owner of the security transferred on the basis of a forged indorsement has a remedy against the issuer for improper registration. Sections 8-311 and 8-404. The issuer's recourse is against the forger or the guarantor of the forger's signature. Section 8-312.

Statutory recognition of the widely prevalent practice of "guarantee of signature" is made in Article 8. Section 8-312(1) provides that such a guarantor of a signature warrants that the signature of the indorsee is not forged, that the indorsee is the holder or has authority to sign for the holder of the security and that the indorsee has legal capacity to sign, but that he does not

¹⁸ Section 23 of the Uniform Negotiable Instruments Act (OHIO GEN. CODE § 8128).

warrant the rightfulness of the transfer.¹⁹ A new concept is introduced for those who wish to use it — a “guarantee of indorsement.” Such a guarantor, in addition to the warranties made by a guarantor of a signature, also warrants the rightfulness of the transfer being made. Section 8-312 (2). The objective of this provision is to relieve issuers and transfer agents of the necessity of requiring information which will establish the rightfulness of the transfer. However, an issuer may not require such a guarantee of indorsement as a condition to registration of the transfer. The guarantor of a signature or indorsement is liable to any person (including an issuer), who registers a transfer in reliance on the guarantee, for any loss resulting from breach of the warranties such guarantor makes.

V. STATUTE OF FRAUDS.

The principles of the Statute of Frauds are expressly made applicable to sales of securities. Section 8-319. A contract for the sale of securities is not enforceable either by way of action or defense unless (a) there is some writing to indicate a contract for sale has been made, signed by the party against whom enforcement is sought or by his authorized agent or broker, or (b) the security has been delivered or payment has been made but only to the extent of such delivery or payment, or (c) confirmation of the sale or purchase has been received by the party against whom enforcement is sought and he has failed to object in writing within 10 days of its receipt, or (d) the party against whom enforcement is sought admits in his pleading or otherwise in court that in fact a contract for sale was made.²⁰

VI. DEALINGS THROUGH BROKERS.

Article 8 recognizes that the bulk of securities trading is done through brokers and attempts to state the effect of the relationship of broker²¹ and customer and the rights and liabilities of each in terms of actual practice and understanding in securities' markets. Thus the Article provides that delivery of a security is completed in some cases while the security is still in the hands of the broker. Section 8-313 provides that delivery to a purchaser is effected when (a) his broker acquires possession of the security

¹⁹ The Comment to Section 8-312 points out that the liability of a guarantor of a signature is made express so that issuers and their agents will have a clear understanding of the extent to which they may rely upon such a guarantee.

²⁰ Section 8-319 conforms the Statute of Frauds provisions with regard to securities to the provisions of Article 2-201 dealing with sales of goods.

²¹ The term “broker” is not defined in Article 8 or elsewhere in the Uniform Commercial Code. It is thus not clear whether “broker” includes a dealer, who acts as a principal and not in an agency capacity.

specially indorsed to or issued in the name of the purchaser, or (b) his broker sends him confirmation of the purchase and also by book entry or otherwise identifies a specific security in the broker's possession as the property of the purchaser, or (c) with respect to an identified security to be delivered and in the possession of the broker, such broker acknowledges that he holds for the purchaser. When any one of these situations occurs delivery to the purchaser is complete and he is not affected by notice of claims of ownership which he receives after such occurrence and before the time he obtains physical possession of the security.²² On the other hand notice of claims of ownership to the purchaser's broker received before delivery of the security to such broker becomes notice to the purchaser.²³ However, the purchaser does not become the holder of a security which is held for him by his broker despite a confirmation of purchase, a book entry and other indication that the security is part of a fungible bulk held for customers and despite the purchaser's acquisition of a proportionate interest in the fungible bulk. Section 8-313 (2). The broker remains the holder of such securities.²⁴ This latter situation usually occurs where securities are bought on margin. The operation of the rules contained in Section 8-313 will have real significance in the event of the bankruptcy of the purchasing broker.²⁵

On the seller's side of the transaction made through an exchange or through brokers, the seller's duty to deliver is fulfilled when he places the security which he has sold in the possession of the selling broker or of a person designated by such broker, or, if so requested, causes an acknowledgment that it is held for the selling broker to be made to such broker. Section 8-314 (1) (a). The selling broker fulfills his duty to deliver the security which he has sold by placing it or a like security in the possession of the buyer's broker or some person designated by him or by effecting clearance of the sale in accordance with the rules of the exchange on which the transaction took place. Section 8-314 (1) (b).

²² See Comment to Section 8-313.

²³ Section 8-304.

²⁴ The Comment to Section 8-313 indicates that the prevalent practice of brokers of treating securities as fungible goods has been emphasized by the introduction of clearing house procedures on the large exchanges. A single completed sale may involve the transfer of a number of different instruments — from seller to selling broker, selling broker to buying broker, and from buying broker to the purchaser. The security delivered to the buying broker will not usually be the same security later delivered by him to the customer. Hence, the broker is regarded as the holder of securities which are not specifically identified as those of a particular customer despite any bookkeeping entries made by the broker.

²⁵ For a discussion of the operation of Section 8-313 in such a case, see *Israels, Article 8 — Investment Securities*, 16 *LAW & CONTEMP. PROB* 249 (1951).

A broker who in good faith (including observance of reasonable commercial standards) has received securities and sold, pledged, or delivered them according to the instructions of his principal is not liable for conversion although the principal had no right to dispose of them. Section 8-318. This is a new provision designed to abolish the liability of a broker for so-called "innocent conversion."

VII. REGISTRATION OF TRANSFERS.

Perhaps the most useful provisions of Article 8 are those dealing with the registration of transfers of securities. The law and practice in this field has been almost entirely case law, but in Ohio there exist several statutory provisions which are designed to protect corporate issuers, transfer agents and registrars in dealing with holders of securities who are fiduciaries or minors. OHIO GEN. CODE § 8623-33, 8509-1, 8509-2. Despite the availability of these existing provisions, the enactment of Article 8 by other states will benefit resident Ohio shareholders in foreign corporations and even in Ohio corporations which have transfer agents in other states. The Article approaches the problem affirmatively by stating that the issuer is required to register the transfer of a security if (a) it is properly indorsed for transfer,²⁶ (b) the issuer has no knowledge that the transfer is wrongful and no duty to inquire into the rightfulness of the transfer,²⁷ and (c) proof is submitted of payment or waiver of any taxes applicable to the transfer. Section 8-401. Where the issuer has performed its duty to register a transfer it is given immunity from liability. A transfer agent, registrar, or indenture trustee is under a similar duty to that of the issuer to register a transfer. Section 8-406.

Obviously, under such a statute the issuer must be satisfied as to the sufficiency of the indorsement of the security. However, instead of leaving the amount and kind of evidence which the issuer may demand within the issuer's discretion, as at present, Section 8-402 provides that unless the issuer has notice that the indorser lacks power to make the indorsement, the issuer shall not require more evidence as to the sufficiency of the indorsement than a guarantee of the signature and, if the indorsement is by a fiduciary, partner or corporate officer, proof of tenure of office at the time of the indorsement. As applied to the transfer or securities comprised in an estate all that Sections 8-401 and 8-402 require is an inheritance tax waiver, an indorsement by the ex-

²⁶ The sufficiency of an indorsement is covered by Section 8-402. The issuer would, of course, be liable for registering a transfer on the basis of a forged or unauthorized indorsement, but the issuer would have an action over against the guarantor of the signature (Section 8-312) and the owner may even be estopped to assert the forgery or lack of authorization (Sections 8-311 and 8-404).

²⁷ See Section 8-403 for a statement as to when such duty exists.

ecutor or administrator, a guarantee of the signature of such executor or administrator and a certificate of his appointment. A certified copy of the will or of a court order of distribution or sale cannot be required by the issuer in the absence of notice of impropriety in the transfer.²⁸ The guarantee of the signature of the indorser must be by a person reasonably believed by the issuer to be responsible. Section 8-402 (3).

The issuer is under no duty to inquire into the rightfulness of a transfer unless it has notice of claims of ownership. Furthermore, even if the security is registered in the name of a fiduciary or if the issuer has notice that the registered owner holds the security for another, there is no duty on the issuer to inquire into the rightfulness of the transfer. Only in the event the issuer has notice that the transfer is to the fiduciary individually, or that the proceeds of the purchase have been placed in the individual account of the fiduciary or are made payable in cash or to the fiduciary individually, or otherwise has reason to know that such proceeds are being used or that the transaction is for the individual benefit of the fiduciary, must the issuer inquire into the rightfulness of the transfer. Section 8-403. This is a rejection of the prevailing doctrine that an issuer has a duty to inquire into the right of the fiduciary to transfer a security in any case where the security is registered in the fiduciary's name.²⁹

The issuer is liable to the owner of the security transferred if the owner's indorsement is forged or unauthorized, but in such cases the issuer is given an action over against the guarantor of the signature. Sections 8-404 and 8-312. The duty of the issuer in such a case is to deliver to the owner a like security unless such delivery would constitute an over-issue. Sections 8-404 and 8-104. The owner cannot elect between an action for damages and an action to compel issue of a new security, as he can under the present law in some jurisdictions.

Finally, there is an express statutory provision as to the duty of an authenticating trustee, transfer agent, or registrar. Section 8-406. Such a person owes to the issuer a duty to exercise good faith and due diligence and he has the same obligation to the holder or owner of the security as the issuer has in regard to the registration of transfers, the issue of new securities, or the cancellation of surrendered securities. This rule represents a rejection of the cases which have held these persons to be merely agents of the issuer and hence not liable to the owner for refusal to register a transfer.³⁰

²⁸ See Comment to Section 8-402.

²⁹ See Comment to Section 8-403.

³⁰ For these cases see Comment to Section 8-406.

If the provisions of Article 8 with respect to the registration of transfers were in effect in all 48 states as the Uniform Stock Transfer Act now is, the process of registration of transfers of securities would be vastly simplified and speeded up with a consequent saving in time and money to transfer agents, fiduciaries, and brokers. Article 8 would be well worth adoption if for no other reason than to bring into effect these provisions dealing with registration of transfers.

VIII. CONCLUSION.

Article 8 has been carefully thought out and drafted. Its adoption would bring, among others, four principal benefits:

1. It would confer the attributes of negotiability on many investment securities which do not now possess them and provide a means of qualification for others as the need arises.

2. It would more clearly define issuer's defenses and purchaser's rights.

3. It would recognize the realities of present day trading in securities through brokers and on exchanges and state workable legal relationships between broker and customer.

4. It would provide a rapid and simple procedure for the registration of transfers of securities.